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Market Month: February 2016

The Markets (as of market close February 29, 2016)

Following steep declines in January and a rocky start to February, equities rebounded by the end of the month to finish close to their ending values from the prior month. The Dow actually finished up, gaining a little over 50 points by February's market close. Each of the indexes listed here remained in negative territory for 2016, with the Russell 2000 and Nasdaq each down almost 9.0%. Investors may be feeling a little more confident in the U.S. economy despite global economic instability, as several domestic economic indicators have been favorable, including manufacturing, inflation, consumer spending, and the GDP.

Bond yields fell by the close of trading for February as prices rose with the influx of investor dollars, while the 10-year Treasury yield dropping almost 20 points by the end of the month. The price of gold (COMEX) increased by month's end, selling at $1239.30--about $121 higher than January's end-of-month price of $1,118.40.

Market/Index	2015 Close	Prior Month	As of 2/29	Month Change	YTD Change
DJIA	17425.03	16466.30	16516.50	0.30%	-5.21%
Nasdaq	5007.41	4613.95	4557.95	-1.21%	-8.98%
S&P 500	2043.94	1940.24	1932.23	-0.41%	-5.47%
Russell 2000	1135.89	1035.38	1033.90	-0.14%	-8.98%
Global Dow	2336.45	2177.64	2158.78	-0.87%	-7.60%
Fed. Funds rate target	0.25%-0.50%	0.25%-0.50%	0.25%-0.50%	0 bps	0 bps
10-year Treasuries	2.26%	1.92%	1.73%	-19 bps	-53 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

The Month in Review

- **Employment:** The employment sector continued to show strength, but at a somewhat slower pace. Total nonfarm payroll employment increased by 151,000 in January (compared with 262,000, as revised, in December), while the unemployment rate fell slightly from 5.0% in December to 4.9% in January. There were 7.8 million unemployed persons, while the labor force participation rate remained relatively the same at 62.7%. According to the latest figures from the Bureau of Labor Statistics, the average workweek increased to 34.6 hours from the prior two months' run of 34.5 hours. Average hourly earnings rose $0.12 to $25.39. Year-on-year, average hourly earnings have risen by 2.5%. For the week ended February 13, there were 2,253,000 continuing unemployment insurance claims--a decrease of 15,000 from the same period last month.
- **FOMC/interest rates:** The Federal Open Market Committee did not meet in February--its next scheduled meeting is set for March. However, the minutes from its last meeting in January, and congressional testimony from FOMC Chair Janet Yellen, revealed the Committee's consensus that

Key Dates/Data Releases

3/1: ISM Manufacturing Index

3/4: Employment situation, international trade

3/8: Treasury budget

3/11: Retail sales, Producer Price Index

3/13: Housing starts, Consumer Price Index, industrial production, FOMC meeting announcement

3/17: JOLTS

3/21: Existing home sales

3/23: New home sales

3/24: Durable goods orders

3/25: GDP

3/26: International trade in goods, personal income and outlays

overall economic conditions may not be sufficiently improved to justify a further interest rate hike in March. Strong labor market conditions, improvement in the housing sector, and increased household and business spending were offset by slowing economic growth, soft exports, and inflation continuing to run below the Committee's target rate of 2.0%.

- **Oil:** Oil prices remained about the same in February, despite supply continuing to far exceed demand and several oil-producing nations refraining from curtailing production. At the end of February crude oil (WTI) was selling at $33.85 per barrel, essentially the same price as the end of January ($33.74 per barrel). The national average retail regular gasoline price actually increased for the first time in eight weeks, selling at $1.730 per gallon on February 22, 2016, a mere $0.006 above the prior week's price of $1.724 but still $0.602 under a year ago.
- **GDP/budget:** The fourth quarter GDP grew at an annualized rate of 1.0%, according to the Bureau of Economic Analysis' second estimate. This is behind the third quarter's 2.0% growth rate, and the 3.9% second quarter reading. As to the government's budget, figures can fluctuate significantly from month to month, depending on the timing of payments and outlays. So it's not surprising that the Treasury reported a $55 billion budget surplus for January, compared with December's $216 billion deficit. Military and Social Security payments pushed to December accounted for that month's large deficit. Through the first four months of the government's fiscal year, the budget deficit sits at about $160 billion, compared with roughly $194 billion through the same period for fiscal 2015.
- **Inflation:** As February comes to a close, inflation remained below the Fed's stated target rate of 2.0%, but it is getting closer. In January, both personal income (pretax earnings) and disposable personal income (income less taxes) increased 0.5%, according to the latest report from the Bureau of Economic Analysis. Generally, personal spending increased 0.5%, while core personal consumption expenditures (personal spending excluding volatile food and energy costs), an inflationary indicator relied upon by the Fed, rose 0.3% from December and is 1.7% year-on-year as it heads toward the Fed's inflation target rate of 2.0%. The Producer Price Index, which measures the prices companies receive for goods and services, advanced 0.1% in January, following a 0.2% drop in December. Buoyed by an increase in the price of services, which offset a drop in the price of goods, producer prices were down 0.2% from January 2015--the 12th straight year-over-year decline. Overall, the Consumer Price Index remained flat in January. However, the index, less food and energy, is up 0.3% over December, while the all items index increased 1.4% over the last 12 months. Retail sales were up 0.2% in January over the prior month, and 3.4% ahead of January 2015. Consumers increased spending on most items, as low gas prices and rising employment gave buyers confidence to spend on goods and services.
- **Housing:** The housing market, which has been a strong sector of the economy, may be showing signs of slowing a bit as we enter 2016. The latest figures from the Census Bureau show that the 494,000 annual rate of sales of new single-family homes in January is 9.2% below December's revised rate of 544,000. The median sales price of new houses sold in January was $278,800 ($288,900 in December), while the average sales price was $365,700 ($346,400 in December). The seasonally adjusted estimate of new houses for sale at the end of January was 238,000. This represents a supply of 5.8 months at the current sales rate. Sales of existing homes were up 0.4% in January at an annualized rate of 5.47 million, compared with a 12.1% revised gain in December. According to the latest report from the National Association of Realtors®, year-on-year sales growth of existing homes is up 11.0%. On the other hand, the median sales price for existing homes dropped 4.2% to $213,800 ($223,200 in December), while the average sales price fell from $266,100 in December to $257,500 in January. Housing starts and building permits for privately owned housing units were down in January from a month prior. Housing starts were 3.8% below December's rate, while applications for building permits for new home construction fell 0.2%.
- **Manufacturing:** Manufacturing and industrial production had been relatively weak sectors in the economy for quite some time. However, the latest information from the Federal Reserve's monthly index of industrial production shows an increase of 0.9% in January following a decline of 0.7% in December. Manufacturing output increased 0.5% in January, which was 1.2% above its level from a year earlier. A significant gain in motor vehicle production and capital goods helped propel the index gain. However, total industrial production in January was 0.7% below its year-earlier level. In addition, the latest report from the Census Bureau shows orders for all durable goods posted its largest increase since last spring. New orders for durable goods expected to last at least three years increased $11.1 billion, or 4.9%, to $237.5 billion in January, following a 4.6% decrease in December.
- **Imports and exports:** Based on information from the Census Bureau, the goods and services deficit was $43.4 billion in December, an increase of $1.1 billion from November. The December increase in the goods and services deficit reflected an increase in the goods deficit of $1.3 billion to $62.5 billion and an increase in the services surplus of $0.1 billion to $19.2 billion. For 2015, the goods and services deficit was $531.5 billion, up $23.2 billion or 4.6% from 2014. Exports were $2,230.3 billion, down $112.9 billion or 4.8%. Imports were $2,761.8 billion, down $89.7 billion or 3.1%. In another report from

the Bureau of Labor Statistics, prices in January for U.S. imports decreased 1.1% for the second consecutive month, primarily driven by lower fuel prices. U.S. export prices also fell in January, decreasing 0.8%, which follows a 1.1% drop in December.

- **International markets:** The possibility of the UK's exit from the European Union (EU) and the eurozone ("Brexit") may have swayed other member countries to allow Britain to receive "special status" ensuring that country's enhanced sovereignty over domestic policy as opposed to becoming more politically integrated into the eurozone. Nevertheless, a referendum vote scheduled for June 23 will determine whether the UK will remain a member of the European Union. Meanwhile, China continues to battle against an economic slowdown. China's equities suffered significant losses toward the end of the month, while the Governor of the People's Bank of China attempted to reassure investors that the yuan need not suffer further depreciation.
- **Consumer sentiment:** It appears consumer confidence may be waning. The Conference Board Consumer Confidence Index® for February fell to 92.2 from January's revised 97.8. Consumers were concerned about weakened current business conditions, their personal financial situations, and the labor market. The University of Michigan's Index of Consumer Sentiment fell to 91.7 in February, compared with 92.0 in January.

Eye on the Month Ahead

As the first quarter of 2016 comes to a close, the shape of the economy should be more evident. At its March meeting, the Federal Open Market Committee will likely provide its perspective on the state of the economy and whether another interest rate hike is in the offing.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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